

Entertainment

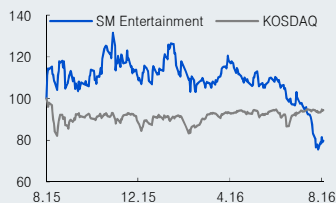
Results Comment

August 16, 2016

(Maintain)	Buy
Target Price (12M, W)	40,000
Share Price (8/12/16, W)	29,700
Expected Return	35%

OP (16F, Wbn)	26
Consensus OP (16F, Wbn)	41
EPS Growth (16F, %)	-6.5
Market EPS Growth (16F, %)	19.7
P/E (16F, x)	30.3
Market P/E (16F, x)	10.8
KOSDAQ	705.18
Market Cap (Wbn)	646
Shares Outstanding (mn)	22
Free Float (%)	79.8
Foreign Ownership (%)	10.4
Beta (12M)	0.68
52-Week Low	28,150
52-Week High	49,000

(%)	1M	6M	12M
Absolute	-18.3	-26.7	-30.3
Relative	-19.0	-36.7	-29.1



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SM Entertainment

(041510 KQ)

Awaiting momentum

2Q review: Earnings come in well short of expectations

For 2Q16, SM Entertainment announced revenue of W76.9bn (+1.1% YoY) and an operating loss of W2.4bn. There were some positives, such as an increase in China revenue (e.g., revenue from commercials and appearances) and the robust performance of SM C&C (turning to black). Consolidated China revenue expanded to W14.4.bn (+38.5%). However, earnings were pressured by the absence of concert royalty income (vs. 340,000 Japanese concert attendees in 1Q16 and 600,000 attendees in 2Q15).

On a non-consolidated basis, parent revenue and operating profit contracted to W42.4bn (-13.1% YoY) and W0.9bn (-88.3% YoY), respectively. At SM Japan, revenue and operating profit decreased 66.0% and 87.1% YoY to W5.5bn and W0.4bn, respectively. Concert organizer DreamMaker's revenue contracted 72.4% YoY to W3.9bn with an operating loss of W0.5bn.

THAAD risk vs. expectations for 2017

For 1H, the company posted digital sales of W2.2bn in China (vs. full-year China digital sales of W1.0bn in 2015). Meanwhile, the company's official retail shop was launched on Alibaba's Tmall, where 350 types of K-pop-related products (such as promotional items, F&B products, and albums) will be sold.

We expect the number of attendees to Japanese concerts to decrease to 1.6mn (vs. 2.1mn in 2015) due to the military enlistment of TVXQ and Super Junior members. However, we forecast the total number of attendees including China will reach 3mn.

Maintain Buy, but Lower TP to W40,000

It is hard to forecast earnings estimates of entertainment companies given their high sensitivity to external factors. While individual risks (such as the exit of SM artists) were an issue in the past, political risks (such as conservative government policies in Japan and THAAD deployment) are having an impact on earnings estimates nowadays.

Despite uncertainties and negative external factors, we still maintain our Buy rating over the long term in light of 1) the growth potential of the Asian entertainment market, especially in China, and 2) the strong content competitiveness of SM, the most powerful entertainment company in Asia.

However, we lower our 2016-17 earnings estimates as well as our target price to W40,000 (from W59,000). We took a conservative approach toward earnings estimates from China (including commercial and appearance revenue) due to the recent tensions over THAAD deployment.

FY(Dec.)	12/13	12/14	12/15	12/16F	12/17F	12/18F
Revenue (Wbn)	269	287	325	358	432	518
OP (Wbn)	41	34	36	26	42	55
OP margin (%)	15.2	11.8	11.1	7.3	9.7	10.6
NP (Wbn)	19	6	22	21	42	46
EPS (W)	913	290	1,048	980	1,908	2,120
ROE (%)	8.6	2.5	8.3	7.2	12.8	12.5
P/E (x)	48.4	117.1	41.0	30.3	15.6	14.0
P/B (x)	3.9	2.9	3.2	2.1	1.9	1.6

Notes: All figures are based on consolidated K-IFRS; NP refers to net profit attributable to controlling interests
Source: Company data, Mirae Asset Daewoo Research estimates

Earnings and forecasts

Table 1. Annual earnings breakdown

(Wbn, %)

	2009	2010	2011	2012	2013	2014	2015	2016F
Revenue	61.8	86.4	143.0	241.3	268.7	287.0	325.4	357.5
CD	14.6	14.9	19.7	22.3	26.6	26.7	29.4	33.4
Digital	9.5	8.5	6.3	6.4	6.1	6.6	12.0	14.3
Overseas	15.8	36.8	81.1	128.7	127.5	118.9	123.8	124.6
Management	21.9	26.2	35.9	36.3	46.0	60.5	66.6	69.1
Other subsidiaries				47.7	62.5	74.3	93.6	116.1
Revenue breakdown								
CD	23.7	17.3	13.8	9.3	9.9	9.3	9.0	9.4
Digital	15.3	9.8	4.4	2.6	2.3	2.3	3.7	4.0
Overseas	25.5	42.6	56.7	53.3	47.4	41.4	38.0	34.9
Management	35.5	30.3	25.1	15.0	17.1	21.1	20.5	19.3
Other subsidiaries	0.0	0.0	0.0	19.8	23.3	25.9	28.8	32.5
Operating profit	9.3	20.2	25.6	60.5	40.5	34.3	36.4	26.2
OP margin (%)	15.1	23.4	17.9	25.1	15.1	12.0	11.2	7.3
Net profit	4.5	15.9	22.8	39.9	18.0	1.8	18.4	17.9
Net margin (%)	7.3	18.4	15.9	16.5	6.7	0.6	5.7	5.0
YoY growth								
Revenue	54.1	39.9	65.6	68.7	11.3	6.8	13.4	9.9
CD	35.7	2.1	32.0	13.3	19.1	0.4	10.1	13.7
Digital	98.1	-10.2	-26.2	1.2	-4.0	8.2	82.3	18.6
Overseas	84.1	133.1	120.6	58.6	-0.9	-6.7	4.1	0.7
Management	37.3	19.6	37.2	0.9	26.9	31.5	10.1	3.7
Other subsidiaries					31.0	18.8	26.0	24.1
Operating profit	TTB	117.2	26.8	136.4	-33.0	-15.3	6.1	-28.0
Net profit	4.7	253.3	43.2	75.3	-54.9	-89.8	906.3	-2.7

Note: Based on K-GAAP through 2011, and consolidated K-IFRS from 2012

Source: Company data, Mirae Asset Daewoo Research estimates

Table 2. Quarterly parent and subsidiary earnings

(Wbn)

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16P	2013	2014	2015
Revenue (consolidated)	66.9	62.2	78.6	79.3	65.4	76.2	94.4	89.2	90.5	76.9	269.2	287.0	325.2
SM Entertainment	37.9	36.2	47.6	47.8	41.1	48.8	59.1	46.4	48.4	42.4	164.2	169.5	195.4
SM Japan	13.6	14.4	13.1	29.0	11.3	16.4	34.9	12.9	20.6	5.5	84.5	70.1	75.5
DreamMaker	3.4	8.6	15.9	8.7	14.5	14.1	12.3	11.9	22.8	3.9	31.5	36.6	52.8
SM C&C	23.3	12.5	13.2	11.6	12.2	14.2	17.6	31.3	20.5	25.3	54.6	60.6	75.3
OP (consolidated)	4.7	5.4	14.3	9.9	3.8	11.8	18.7	2.1	9.0	-2.4	40.6	34.3	36.4
SM Entertainment	4.8	3.1	8.9	6.8	4.7	7.7	11.5	0.2	6.5	0.9	34.6	23.6	24.1
SM Japan	1.5	1.6	3.8	4.9	1.1	2.3	4.6	6.7	2.1	0.4	5.2	11.8	14.7
DreamMaker	-1.0	1.4	3.4	1.7	0.9	2.5	3.0	0.4	1.7	-0.5	3.8	5.5	6.8
SM C&C	0.5	-1.0	-1.4	-3.5	-1.8	-0.5	0.2	-2.2	0.5	0.1	1.9	-5.4	-4.3

Source: Company data, Mirae Asset Daewoo Research estimates

Table 3. Revenue breakdown by division

(Wbn, %)

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16P
Revenue	33	33	46	51	38	36	48	48	41	49	59	47	48	42
Domestic Revenue	16	18	19	26	23	23	29	20	24	28	24	29	23	28
CD	5	6	8	8	8	8	6	5	7	11	8	8	3	12
Digital	1	1	1	2	2	2	2	2	2	3	3	3	3	3
Appearance	4	3	3	5	3	3	5	4	5	5	6	5	5	5
Commercial	3	5	4	5	6	4	8	6	5	6	6	7	6	5
Other	3	2	3	6	4	5	8	4	6	5	2	7	6	3
Overseas Revenue	17	16	27	25	15	14	19	28	17	20	35	17	25	15
CD	5	3	3	2	2	3	2	1	3	2	1	2	2	2
Digital	0	0	1	1	1	1	2	1	1	2	2	2	2	3
Appearance	4	7	17	16	9	6	6	17	7	12	28	8	14	7
Commercial	1	1	1	2	1	1	2	2	1	1	1	1	1	2
Other	7	4	5	5	2	3	7	7	5	5	3	4	7	2

Note: Based on non-consolidated K-IFRS

Source: Company data, Mirae Asset Daewoo Research estimates

Table 4. Earnings forecast revisions

(Wbn, W, %, %p)

	Previous		Revised		% chg.	
	2016F	2017F	2016F	2017F	2016F	2017F
Revenue	363	452	358	432	-1.4	-4.4
Operating profit	45	65	26	42	-42.2	-35.4
Pretax profit	48	74	26	48	-45.8	-35.1
Net profit	36	55	21	42	-41.7	-23.6
EPS	1,738	2,642	980	1,908	-43.6	-27.8
OP margin	12.4	14.4	7.3	9.7	-5.1	-4.7
Net margin	9.9	12.2	5.9	9.7	-4.1	-2.4

Note: Based on consolidated K-IFRS.

Source: Company data, Mirae Asset Daewoo Research estimates

SM Entertainment (041510 KQ/Buy/TP: W40,000)

Comprehensive Income Statement (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Revenue	325	358	432	518
Cost of Sales	212	244	284	340
Gross Profit	113	114	148	178
SG&A Expenses	77	88	106	122
Operating Profit (Adj)	36	26	42	55
Operating Profit	36	26	42	55
Non-Operating Profit	-8	0	6	2
Net Financial Income	0	0	0	0
Net Gain from Inv in Associates	0	0	0	0
Pretax Profit	28	26	48	57
Income Tax	10	8	13	18
Profit from Continuing Operations	18	18	35	39
Profit from Discontinued Operations	0	0	0	0
Net Profit	18	18	35	39
Controlling Interests	22	21	42	46
Non-Controlling Interests	-3	-3	-6	-7
Total Comprehensive Profit	22	18	35	39
Controlling Interests	25	20	39	43
Non-Controlling Interests	-2	-2	-4	-4
EBITDA	57	42	54	65
FCF (Free Cash Flow)	23	40	48	50
EBITDA Margin (%)	17.5	11.7	12.5	12.5
Operating Profit Margin (%)	11.1	7.3	9.7	10.6
Net Profit Margin (%)	6.8	5.9	9.7	8.9

Cash Flows (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Cash Flows from Op Activities	66	40	48	50
Net Profit	18	18	35	39
Non-Cash Income and Expense	50	30	25	27
Depreciation	7	6	5	4
Amortization	14	10	7	5
Others	29	14	13	18
Chg in Working Capital	11	0	1	1
Chg in AR & Other Receivables	7	-4	-9	-10
Chg in Inventories	-1	-1	-2	-3
Chg in AP & Other Payables	-1	3	8	9
Income Tax Paid	-13	-8	-13	-18
Cash Flows from Inv Activities	-68	-5	-11	-12
Chg in PP&E	-38	0	0	0
Chg in Intangible Assets	-12	0	0	0
Chg in Financial Assets	-1	-5	-11	-12
Others	-17	0	0	0
Cash Flows from Fin Activities	42	-8	0	0
Chg in Financial Liabilities	30	-8	0	0
Chg in Equity	6	0	0	0
Dividends Paid	0	0	0	0
Others	6	0	0	0
Increase (Decrease) in Cash	41	20	34	33
Beginning Balance	92	133	153	187
Ending Balance	133	153	187	220

Source: Company data, Mirae Asset Daewoo Research estimates

Statement of Financial Condition (Summarized)

(Wbn)	12/15	12/16F	12/17F	12/18F
Current Assets	227	256	311	368
Cash and Cash Equivalents	133	153	187	220
AR & Other Receivables	39	43	52	62
Inventories	10	11	13	16
Other Current Assets	45	49	59	70
Non-Current Assets	233	223	224	229
Investments in Associates	16	18	21	26
Property, Plant and Equipment	107	102	97	92
Intangible Assets	51	41	34	29
Total Assets	460	478	534	597
Current Liabilities	98	99	119	142
AP & Other Payables	48	53	64	77
Short-Term Financial Liabilities	11	3	3	0
Other Current Liabilities	39	43	52	65
Non-Current Liabilities	38	38	39	40
Long-Term Financial Liabilities	35	35	35	0
Other Non-Current Liabilities	3	3	4	40
Total Liabilities	136	137	158	182
Controlling Interests	283	304	346	393
Capital Stock	10	10	10	10
Capital Surplus	127	127	127	127
Retained Earnings	130	151	193	239
Non-Controlling Interests	40	37	31	23
Stockholders' Equity	323	341	377	416

Forecasts/Valuations (Summarized)

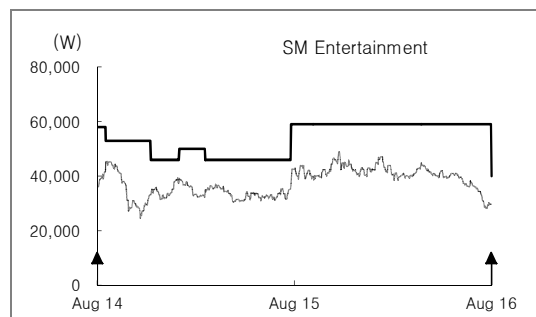
	12/15	12/16F	12/17F	12/18F
P/E (x)	41.0	30.3	15.6	14.0
P/CF (x)	13.0	13.3	10.7	9.8
P/B (x)	3.2	2.1	1.9	1.6
EV/EBITDA (x)	14.6	13.3	9.6	7.4
EPS (W)	1,048	980	1,908	2,120
CFPS (W)	3,317	2,239	2,766	3,023
BPS (W)	13,612	13,999	15,907	18,027
DPS (W)	0	0	0	0
Payout ratio (%)	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Revenue Growth (%)	13.2	10.2	20.7	19.9
EBITDA Growth (%)	21.3	-26.3	28.6	20.4
Operating Profit Growth (%)	5.9	-27.8	61.5	31.0
EPS Growth (%)	261.4	-6.5	94.7	11.1
Accounts Receivable Turnover (x)	7.6	8.8	9.2	9.1
Inventory Turnover (x)				
Accounts Payable Turnover (x)	6.2	6.8	6.8	6.8
ROA (%)	4.4	3.8	6.9	6.9
ROE (%)	8.3	7.2	12.8	12.5
ROIC (%)	14.6	11.6	21.6	29.1
Liability to Equity Ratio (%)	42.1	40.1	41.9	43.7
Current Ratio (%)	231.0	259.4	262.0	260.2
Net Debt to Equity Ratio (%)				
Interest Coverage Ratio (x)				

APPENDIX 1

Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
SM Entertainment (041510)	08/15/2016	Buy	40,000
	08/10/2015	Buy	59,000
	03/04/2015	Buy	46,000
	01/15/2015	Buy	50,000
	11/23/2014	Buy	46,000
	09/01/2014	Buy	53,000
	05/15/2014	Buy	58,000



Stock Ratings

Buy	: Relative performance of 20% or greater
Trading Buy	: Relative performance of 10% or greater, but with volatility
Hold	: Relative performance of -10% and 10%
Sell	: Relative performance of -10%

Industry Ratings

Overweight	: Fundamentals are favorable or improving
Neutral	: Fundamentals are steady without any material changes
Underweight	: Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (—), Not covered (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

* Although it is not part of the official ratings at Mirae Asset Daewoo Co., Ltd., we may call a trading opportunity in case there is a technical or short-term material development.

* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Equity Ratings Distribution

Buy	Trading Buy	Hold	Sell
70.73%	17.56%	11.71%	0.00%

* Based on recommendations in the last 12-months (as of June 30, 2016)

Disclosures

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